Statement of

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Dairy, Nutrition and Forestry

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Mr. Chairman and members of the Subcommittee, my name is Jim Green and I am the President & CEO of Kemps LLC, a Saint Paul-based company that makes and markets a wide variety of dairy products, including milk, ice cream, cottage cheese, sour cream, dips and yogurt. Kemps is a wholly-owned subsidiary of H.P. Hood, LLC, one of the largest dairy companies in America.

I have been in this business my entire life, starting with a family owned dairy operation in York, Pennsylvania. Today, I have the privilege of working at Kemps and chairing the International Dairy Foods Association (IDFA) and the International Ice Cream Association (IICA).

A lot has changed since 1914 when Kemps started making and delivering milk and ice cream. We now have 1,450 employees, most of whom work in five milk plants in Minnesota, South Dakota and Wisconsin, a cultured dairy products plant in Minnesota and two ice cream facilities in Minnesota and Connecticut.

Thank you for the opportunity to provide a Minnesota perspective on dairy policy as you plan to draft the next Farm Bill. The dairy industry faces some unique challenges in the Upper Midwest, but we share a national belief that America has the best dairy industry in the world.

Nationally, our farmers produce an abundant and growing supply of milk and our healthy dairy processing sector makes foods and beverages enjoyed around the globe. But, if our present set of dairy policies is left unchanged, then our ability to be competitive here in Minnesota and abroad will be diminished greatly.

As we approach the next Farm Bill, now is the right time to have a serious discussion about the need to strip away outdated farm policies and put in place programs that promote innovation and growth.

While others on this panel will undoubtedly focus on the urgent need to address problems with our costly and complicated dairy subsidy programs, I would like to focus first on the Federal Milk Marketing Order program and then suggest to you guiding principles that can be used when you write the next Farm Bill to bring common sense to the maze of our dairy regulations.

In many respects, classified pricing is at the root of many of the industry's problems, particularly in this part of the country.

The milk marketing program has been around since the Great Depression -- nearly as long as Kemps. Since then, my company and other dairy processors like us have modernized our operations to take advantage of advances in refrigeration, distribution, telecommunications and other business innovations.

Unfortunately, the federal milk marketing order system has not kept pace with the demands of a changing dairy industry. Just as it did decades ago, the federal government still sets the base price of milk that Kemps and other processors must pay to cooperatives and dairy farmers.

The government still operates a complex system of pricing milk based on how the milk is used, with higher prices paid for milk used for beverages (Class I) and successively lower prices for milk used in yogurt, ice cream, soft products (Class II), cheese (Class III) and butter and dry milk products (Class IV). Regulated milk prices are different, too, based on "where" the milk is used – not just what products the milk is used in.

The complexity and stagnation of the federal milk marketing orders, which are unlike any other commodity program, have created a system of milk price regulation that often stands in the way of milk moving to its highest value use from the most efficient production areas. As a result, we have a system that causes regional price distortions and has grown so cumbersome that even the simplest changes take years to make.

In Minnesota, where our milk supply has been declining steadily, these regional price concerns raise serious long-term questions of sustainability and fairness for dairy farming and processing.

The federal milk marketing orders keep us at a competitive disadvantage in today's marketplace. Seventy years ago, milk was unrivaled as the beverage of choice for American consumers. Today, milk competes directly with bottled water, fruit juices and soft drinks, none of which are subject to government-run classified pricing schemes. Globally, only America and Canada still maintain rigid milk price setting regulations while our competitors, like New Zealand and Australia, have no such regulations. Even emerging international dairy markets, such as Russia, China and India have avoided the "American model." Ironically, these socialist countries have freer dairy markets than we do. These are all clear indications that we need to change the way we do business in America.

Beyond the complex web of federal milk marketing orders, the U.S. has two countervailing dairy subsidy programs that USDA found in 2004 do very little to help dairy farmers. The Milk Income Loss Contract Program (MILC) and the dairy price support program are at odds with one another. MILC stimulates over production, depressing prices and causing greater price instability in the market place. While the dairy price support program makes the government an active, willing buyer of dairy products -- preventing markets from clearing properly when products are too plentiful and artificially interfering with the commercial marketplace.

The federal government also spends billions of dollars on a host of beneficial conservation and animal health programs, disaster relief efforts and rural development that are all designed to assist our farmers, including dairy farmers. All of these programs should be examined carefully and only the ones that stimulate growth and innovation should remain.

Unfortunately, we cannot fix all of the problems with federal dairy policies that have accumulated over the last seventy years. However, we can take small, meaningful steps that will put us on the right track to future success. We can make the federal milk marketing order process more flexible and responsive. We can initiate a transition from multiple, divisive and costly subsidy programs to a single, national dairy farmer safety net. We can create a more level playing field for all producers and processors to compete fairly and equitably. The next Farm Bill provides an historic opportunity for Congress to begin this process to ensure that the U.S. dairy industry will be more prosperous in the future.

We can accomplish all of these goals if we work together and come to a consensus on the basic principles for a more modern, market-oriented set of national dairy policies.

First, it is important that policies allow market signals to work so that our products can be the most cost competitive and innovative in bringing consumers what they want and will buy.

Second, while there are certainly regional differences in our industry structure, it is important that federal dairy policies be national in scope, recognizing national and even global markets for our products.

Third, policies should be designed to allow market signals to operate naturally and minimize federal government expenditures.

Fourth, there should be a single, national program to provide a safety net for dairy farmers that minimizes market interferences as much as possible, is consistent with our trade objectives and policies, and yet still provides critical assistance when it is needed.

The dairy processing industry is committed to these principles and believe they are the foundation for our future; providing producers and processors the greatest opportunity for strong growth and prosperity.

I commend you for holding this hearing and gathering a diverse group of dairy industry representatives together to share our ideas. The outcome of the farm bill is important to my business, important to Minnesota, and important to the ultimate success of the U.S. dairy industry.

Thank you.